LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6780 | **NOTE PREPARED:** Jan 17, 2009
BILL NUMBER: HB 1447 | **BILL AMENDED:**

SUBJECT: Property taxation.

FIRST AUTHOR: Rep. Welch | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill reconciles differences among the laws enacted in the 2008 session of the General Assembly, and does the following:

Standard Deduction: This bill specifies that a person may apply for the standard deduction on a sales disclosure form. It establishes filing requirements for the property tax standard deduction that are similar to the filing requirements that applied to homestead credit applications.

The bill specifies that an applicant for a standard deduction for a homestead may own (or have the other requisite interest in) the homestead on the date that a deduction application is filed, and permits the filing of an application at any time during the assessment year if the homestead is real property, and at any time before March 31 of the immediately following year if the homestead is a mobile home treated as personal property.

The bill also codifies a noncode provision that provides that an individual or entity that receives a standard deduction (or received a homestead credit) in a particular year and remains eligible for the standard deduction is not required to refile a statement to apply for the standard deduction.

Senior Homeowners: This bill merges the text of a definition related to the senior citizen tax limit credit into the credit law. It standardizes the language describing a homestead in the standard deduction law, the circuit breaker credit law, and the senior citizen tax limit law so that it refers to a homestead that is eligible to receive a standard deduction.

School Budgets: The bill exempts nonelected school boards from the law requiring taxing units with nonelected governing bodies to have bond issues and leases approved by the fiscal body of a county, city, or town.

Controlled Projects: The bill defines "registered voter" for purposes of the statute specifying who is eligible to sign a petition requesting a referendum for a controlled project.

Fire Protection Territories: This bill allows a civil taxing unit to increase its property tax levy in the first year in which the civil taxing unit participates in a fire protection territory.

Tax Adjustment Boards: The bill removes the expiration date for the county boards of tax adjustment.

Maximum Levy Adjustment: This bill legalizes the method used by the Department of Local Government Finance to (DLGF) reduce the 2009 maximum permissible ad valorem property tax levy of taxing units that paid benefits to members of the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, or the 1953 Police Pension Fund.

The bill repeals a superseded definition and makes other corrections.

(The introduced version of this bill was prepared by the Commission on State Tax and Financing Policy.)

Effective Date: Upon passage; March 1, 2008 (retroactive); July 1, 2008 (retroactive); December 31, 2008 (retroactive); January 1, 2009 (retroactive); July 1, 2009.

Explanation of State Expenditures: See *Explanation of Local Revenues* for potential impact on the Department of Local Government Finance.

Explanation of State Revenues:

Explanation of Local Expenditures: *Controlled Projects:* The definition under this bill of "registered voter" as it pertains to signatures on a petition to initiate the referendum process is consistent with the definition used in the petition and remonstrance process. This provision has no fiscal impact.

Explanation of Local Revenues: *Standard Deduction:* Before the passage of HEA 1001-2008, homeowners filed an application for the state homestead credit and the standard deduction was automatically granted to all homeowners who received the credit. Since the homestead credit was eliminated by HEA 1001-2008, homeowners must now apply directly for the standard deduction. The changes in this bill reconcile multiple versions of the deduction statutes and complete the transformation so that the eligibility and filing requirements for the standard deduction mirror those of the former homestead credit. Under ths bill, homeowners may apply for the standard deduction on a sales disclosure form and may apply at any time during the assessment year to be effective for taxes payable in the following year. As clarifications, these provisions have no fiscal impact.

School Budgets: Under current law, a civil taxing unit or school corporation with a non-elected governing body must submit its proposed budget and property tax levy for approval by the county fiscal body or municipal fiscal body if the percentage increase in the proposed budget is greater than the income-based assessed value growth quotient. Beginning with 2009 budgets, non-elected school board budgets would not be subject to this review under the bill.

Fire Protection Territories: Under current law, the legislative bodies of at least 2 contiguous taxing units may establish a fire protection territory (FPT). All units involved in the FPT are participating units, one of which is the provider unit. During the first three years of the territory's existence, the participating units each impose a property tax levy to support the FPT. After three years, the provider unit imposes a levy and tax rate upon all of the property in the FPT and the other participating units' levies for fire protection are eliminated.

Prior to the passage of HEA 1001-2008, a participating unit's maximum levy could be increased in those first 3 years in order to generate the unit's share of the amount necessary to fund the FPT. Under HEA 1001-2008, the levy for a FPT cannot increase by more than the income-based assessed value growth quotient (AVGQ), about 4% per year.

Under this bill, new participating units would submit their first-year proposed budget, levy, and tax rate for the FPT to the state's Local Government Property Tax Control Board. The Control Board would make a recommendation to the DLGF, who would make a final determination. The initial levy set by the DLGF would be the basis for future levy growth under the AVGQ limits, except that the DLGF could reduce the base by all or a part of the initial levy that was used to establish an operating balance. Compared to the levy limits under current law, this provision could increase the property tax levy for future FPTs.

Senior Homeowners: The income, age, and assessed value qualifications for the additional circuit breaker available to qualified seniors are contained in two sections of the Indiana Code. This bill merges all of the qualifications into one section and repeals the other section.

Under current law, homeowners who qualify for the senior deduction may not receive any other deductions except for the mortgage deduction and the traditional standard deduction. The new supplemental homestead standard deduction is automatically granted to any homeowner that receives the traditional standard deduction. This bill clarifies that senior taxpayers may receive both the over 65 deduction and the supplemental standard deduction. These senior homeowner provisions have no fiscal impact.

Tax Adjustment Boards (TAB): Prior to the passage of HEA 1478 - 2007, each county (that did not abolish it) had a TAB comprised of 7 members. The TAB members include one member of the county fiscal body, one member of the fiscal body of the largest city or town in the county, one board member of the county's largest school corporation based on AV, and four resident freeholders appointed by the county commissioners. The TAB was required to review each civil taxing unit's and school corporation's proposed budget, tax rate, and tax levy and could revise or reduce, but not increase them. Under HEA 1478 - 2007, these boards expired on December 31, 2008.

This bill would retroactively reestablish the boards on December 31, 2008. The four resident freehold members receive a per diem salary for each day of actual service at the same rate set by the county for the county property tax assessment board of appeals (PTABOA). Counties that do not elect to abolish their TAB would have increased expenses for per diem payments.

Maximum Levy Adjustment: Prior to the passage of HEA 1001-2008, the state made distributions to local taxing units to pay a part of the cost of benefits under the pre-1977 public safety pension plans. Beginning in 2009 under HEA 1001-2008, the state has assumed the remainder of the cost of those benefits. HEA 1001-2008 also required a reduction in maximum levies by the amount of the state payments. The DLGF has administered this section by reducing the taxing units' maximum levies by the *additional* amount of state payments made under HEA 1001-2008 rather than by the entire amount of the new plus existing state payments. This bill would legalize the actions taken by the DLGF.

Effect on Circuit Breakers: Any provision that affects local property tax levies, assessments, deductions, or credits may have an effect on the local cost of circuit breaker credits. If, on the whole, the changes result in higher net tax amounts, then the cost of the circuit breaker credits will rise. If net tax is reduced, then the cost of the circuit breaker credits will also fall.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County boards of tax adjustment; Non-elected school boards; and Fire protection territories.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.